United Nations ECE/ENERGY/GE.3/2018/9

Economic and S l Council

Distr.: General
8 February 2018

Original: English

Economic Commission for Europe

Committee on Sustainable Energy

Expert Group on Resource Classification

Ninth session
Geneva, 24–27 April 2018
Item 7(b) of the provisional agenda
Development, maintenance and application of the United Nations Framework Classification for Resources: Petroleum

Draft input mechanism for the development of Specifications for the Application of the United Nations Framework Classification for Resources to Petroleum

Application of the United Nations Framework Classification for Integrated Resource Management for petroleum and total resources by National Oil Companies and government regulators

Prepared by the Petroleum Working Group of the Expert Group on Resource Classification

Summary

This document outlines a high-level proposal to initiate a pilot project for implementation and use of the United Nations Framework Classification for Resources (UNFC) for Integrated Resource Management (IRM) for petroleum. The document outlines how, why, where and when the pilot project would be initiated.

The overall intent is to promote and assist the uptake of UNFC by National Oil Companies (NOCs) and government institutions responsible for energy policy and management that in a number of countries also double as regulators.

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I. Introduction

1. This document sets out a proposal to promote the application of the United Nations Framework Classification for Resources (UNFC) for petroleum. This is seen as an effective process through which valuable inputs could be gathered for development of petroleum resource specifications.

2. In order to capture the full value of the total resource base in a country, it is prudent to have a consistent basis for this value, such that it provides a strong comparative linkage to each asset and resource in the country. Many resource abundant countries have significant petroleum and mineral resources as well as access to other energy sources (nuclear, renewables, etc.). All national energy resources can and should be compared on a value-added basis, including with respect to the Sustainable Development Goals (SDGs) (e.g., including environmental and social aspects) which would perhaps provide an effective platform for making sound decisions on energy policy. It is also imperative that consistency and comparability at an appropriate level should follow and maintain global best practices.

3. This document outlines a high-level proposal to initiate a pilot project for implementation and use of UNFC for Integrated Resource Management (IRM). The document outlines how, why, where and when the project will be initiated.

4. The overall intent is to promote and assist the uptake of UNFC by National Oil Companies (NOCs) and government institutions responsible for energy policy and management which in a number of countries also double as regulators. It is envisaged that when NOCs and government regulators consistently apply UNFC guidelines in country resource management, they will then be widely accepted by industry players and acceptable for external reporting.

5. The adoption of UNFC for IRM will therefore ensure:

(a) Assistance with energy policy direction;

(b) Assistance with regulatory policy direction;

(c) Consistency in disparate resource value capture;

(d) Integration of conventional and unconventional resource management;

(e) Clear and easy information for investors and operators that could participate in the bidding rounds;

(f) Assistance in decision-making;

(g) Planning of resource development over different time-frames;

(h) Faster adoption of new technologies and business models;

(i) Incorporation of sustainability considerations (e.g., environmental and social aspects);

(j) Increased resiliency by responding flexibly to market signals;

(k) Provide more transparency and reliability for resources management.

6. IRM involves alignment of assessment of different resources (minerals, petroleum, renewables, etc.) to give an overall assessment of total resources. Integrated resource management includes proper classification and further actions (such as detailed studies, including market analysis, obtaining regulatory approvals, securing project finance, etc.) to increase project maturity (E and F axes). Integrated resource reporting may be included as one aspect of the overall IRM process and may include aligning all activities to the SDGs.

7. The value drivers may form a 'cluster of values' including energy security, contribution to the socio-economic development of the country, and diverse benefits to a business platform for the company.

8. One of the key objectives of UNFC is an alignment to the Sustainable Development Goals at the highest level, supported by the development of UNFC principles, generic specifications and common guidelines such as the UNFC's Social and Environmental Guidelines.

9. An example of an integrated approach is the initiative to set up an African Minerals Resource Classification (AMREC) system based on UNFC. This effort is spearheaded by the African Minerals Development Centre (AMDC). It will cover minerals and petroleum in the first phase and then be extended to renewables in the next phase. This example illustrates the stepwise approach that can be implemented to cover resources other than minerals and petroleum.

10. The Expert Group on Resource Classification has supported the use of UNFC either as a standalone system or through one of the Bridging Documents.

11. Consistent use of UNFC has the potential to allow extraction of volumes for:

(a) External reporting (e.g. stock exchanges);

(b) Raising finance (e.g. banks);

(c) National inventory maintenance and statistics.

12. The initial objective is the promotion, recognition and implementation of UNFC for resources in four or five interested developing countries. Part of the in-country engagement will involve the provision of training which will cover the benefits of UNFC over other classification systems, as a comprehensive resource management system. Differences between UNFC and other classification systems will also form part of the holistic exercise.

13. In order to achieve the desired objective of effective and efficient promotion of UNFC and alignment with other systems, close collaboration will be required by different commodity Working Groups as well as the UNFC Revision Task Force. Coordination between all stakeholders (NOCs, regulators, etc.) will be necessary to realize the desired outcomes.

14. Based on the success of the project, it will be rolled out in stages to other countries globally. The timeline for this will depend on the availability of expertise and financial support.

II. Dimensions

15. The project is intended to provide holistic support to NOCs who have expressed an interest in pursuing the implementation of UNFC and adopting global best practices but tailored to local requirements.

16. The dimensions may include providing:

(a) Guidance on how to use UNFC for internal resource management;

(b) Advice on how UNFC specifications could be used for more consistent resource classification;

(c) Advice on how to use UNFC guidelines;

(d) Leadership for implementation of specific UNFC applications;

(e) Guidance on building the capacity of Competent Person for external reporting.

17. The first region selected for a pilot project could be Africa or Central Asia, with a number of countries in those regions already showing interest in UNFC. It is anticipated that around four to five countries would participate in the first project. Depending on the scale of interest and success, it could then be rolled-out to other regions such as Asia and Latin America.

III. Proposed project execution

18. This project can be executed in phases. Proposed phases may encompass:

Phase 1: Training and introduction of UNFC to NOCs/Government Regulators

1(a) How to capture value

- Benefits of UNFC application as a comprehensive resource management system over other classification systems
- How to apply UNFC specification for specific purposes (internal resource management, public disclosure etc.)
- How the United Nations Economic Commission for Europe (ECE), in cooperation with other UN regional commissions, can assist
- Plan and agree on the way forward for implementation.

1(b) Practical part

Phase 2: Review Meeting (after about six months)

- Case studies
- Consistency Assurance
- Any corrective action required.

Phase 3: After Action Review (after another six months)

- Lessons learned
- What worked and what did not
- What can be done differently?
- Consequences.

IV. Timeline

19. The project could be started in the third quarter of 2018 after recommendation by the Bureau of the Expert Group on Resource Classification and approval by the Expert Group and on the availability of funds.

V. Resources

20. It is envisioned to identify volunteer 'Regional Champions' (RCs) worldwide who will assist the Technical Advisory Group (and Working Groups of the Expert Group on

Resource Classification) in securing contacts in countries in the region. They will also be tasked to source country champions in their region who will assist the RCs.

21. ECE, in cooperation with the other UN regional commissions, will coordinate the regional and global rollout of training as envisaged previously.

22. The expertise/experts for implementation will be sourced from the talent pool of the Expert Group on Resource Classification and its sub-groups.

VI. Finance

23. It is envisaged that NOCs involved in the UNFC uptake will provide the required finance (e.g. to cover UN administration costs, travel, local expenses, adviser costs, etc.). A budget can be prepared following general approval of the document and agreement, in principle, by the initial interested parties.

VII. Acknowledgements

24. This document has been prepared by Satinder Purewal, Chair of the Petroleum Working Group of the Expert Group on Resource Classification, with inputs from members of the Petroleum Working Group. The members of the Petroleum Working Group are: Andrew Barrett, GeoScience Australia; Vera Bratkova, Russian State Committee on Mineral Reserves, Russian Federation; Jan Bygdevoll, Norwegian Petroleum Directorate, Norway; Simplicio Caluyong, Coordinating Committee for Geoscience Programmes in East and Southeast Asia (CCOP); Narmina Garayeva, Independent Consultant; Olaf Klarner, European Federation of Geologists; Ulises Neri, National Hydrocarbons Commission, Mexico; Felix Bob Ocitti, Petroleum Exploration, Development & Production Department (PED&PD), Uganda; Dominique Salacz, Evolution Resources; Alexander Shpilman, Research Institute, Tyumen, Russian Federation; Narendra Kumar Verma, ONGC Videsh Limited, India; and, Yang Hua, China National Petroleum Corporation, China. The Technical Advisory Group Review Team, Harikrishnan Tulsidas, ECE, and Charlotte Griffiths, ECE, are acknowledged for their contributions and review of this document.